Report

of the

Examination of

ACUITY, A Mutual Insurance Company

Sheboygan, Wisconsin

As of December 31, 2004

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State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

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September 12, 2005

Honorable Jorge Gomez
Secretary, Midwestern Zone, NAIC

Commissioner of Insurance
State of Wisconsin
125 South Webster Street
Madison, Wisconsin 53702

Honorable Alfred W. Gross
Chair, Financial Condition (E) Committee, NAIC
Commissioner of Insurance
Commonwealth of Virginia
1300 East Main Street
Richmond, Virginia 23219

Honorable Walter A. Bell
Secretary, Southeastern Zone, NAIC
Commissioner of Insurance
State of Alabama
201 Monroe Street, Suite 1700
Montgomery, Alabama 36104

Commissioners:

In accordance with your instructions a compliance examination has been made of the affairs and financial condition of:

ACUITY, A MUTUAL INSURANCE COMPANY
Sheboygan, Wisconsin

and this report is respectfully submitted.

I. INTRODUCTION

The previous examination of ACUITY, A Mutual Insurance Company, was conducted in 2000 as of December 31, 1999. The current examination covered the intervening period ending December 31, 2004, and included a review of such 2005 transactions as deemed necessary to complete the examination.

The examination consisted of a review of all major phases of the company's operations, and included the following areas:

History
Management and Control
Corporate Records
Conflict of Interest
Fidelity Bonds and Other Insurance
Employees' Welfare and Pension Plans
Territory and Plan of Operations
Affiliated Companies
Growth of Company
Reinsurance
Financial Statements
Accounts and Records
Data Processing

Emphasis was placed on the audit of those areas of the company's operations accorded a high priority by the examiner-in-charge when planning the examination. Special attention was given to the action taken by the company to satisfy the recommendations and comments made in the previous examination report.

The section of this report titled "Summary of Examination Results" contains comments and elaboration on those areas where adverse findings were noted or where unusual situations existed. Comment on the remaining areas of the company's operations is contained in the examination work papers.

The company is annually audited by an independent public accounting firm as prescribed by s. Ins 50.05, Wis. Adm. Code. An integral part of this compliance examination was the review of the independent accountant's work papers. Based on the results of the review of these work papers, alternative or additional examination steps deemed necessary for the completion of this examination were performed. The examination work papers contain documentation with respect to the alternative or additional examination steps performed during the course of the examination.

Independent Actuary's Review

An independent actuarial firm was engaged under a contract with the Office of the Commissioner of Insurance. The actuary reviewed the adequacy of the company's loss and loss adjustment expense reserves. The actuary's results were reported to the examiner-in-charge. As deemed appropriate, reference is made in this report to the actuary's conclusion.

II. HISTORY AND PLAN OF OPERATION'

ACUITY, A Mutual Insurance Company, (hereinafter also ACUITY or the company) a mutual property and casualty company operating under ch. 611, Wis. Stat., was incorporated in the State of Wisconsin on August 11, 1925, under the name of Mutual Automobile Insurance Company of the Town of Herman, and commenced business on September 25, 1925. Operations were initially restricted to Sheboygan County, Wisconsin, but the territory of the company was gradually extended. The name was changed in May 1954 to Mutual Auto Insurance Company. In December 1957, the company changed its name to Heritage Mutual Insurance Company. The present name was adopted in March 2001. The company absorbed Bloomfield Mutual Insurance Company of West Bloomfield, Wisconsin, through a merger on January 22, 1982.

ACUITY has approximately 714 employees. The company also provides employees, office facilities, and general administrative services to certain of its affiliates. All expenses for shared arrangements are initially paid by ACUITY. Expenses other than taxes are then allocated on the basis of budget center utilization estimates and time studies. Tax allocations are established in accordance with a written agreement described in the section of this report entitled "Affiliated Companies." Intercompany balances with affiliates are created in the normal course of business, with settlements generally made on a monthly basis.

In 2004, the company wrote direct premium in the following twelve states:

Illinois	$ 93,766,015	13.5%
Indiana	37,399,108	5.4
Iowa	40,884,484	5.9
Kentucky	16,759,043	2.4
Michigan	11,931,887	1.7
Minnesota	61,625,267	8.9
Missouri	8,637,910	1.2
Nebraska	14,933,748	2.2
North Dakota	11,579,839	1.7
Ohio	44,331,605	6.4
South Dakota	26,411,575	3.8
Wisconsin	324,237,584	46.9
Total	$692,498,065	100.0%

As of the examination date, the company was licensed in 31 states. In addition to the states noted above, the company is also licensed in the following 19 states that they did not write business in 2004: Alabama, Arizona, Arkansas, Colorado, Delaware, Florida, Georgia, Idaho, Kansas, Mississippi, Nevada, Oregon, Pennsylvania, Tennessee, Texas, Virginia, Washington, West Virginia, and Wyoming.

The company has also been issued a certificate of authority by the United States Department of the Treasury with respect to the issuance of surety bonds permitted or required by the laws of the United States. Currently the company has discontinued writing surety bond coverage.

In the State of Wisconsin, the company is licensed to transact all lines of property and casualty business as defined by s. Ins 6.75 (2), Wis. Adm. Code, except title, mortgage guaranty, credit, legal expense, and credit unemployment.

Personal automobile and homeowner's liability coverages are limited to a maximum of $1,000,000; however, there are very few policies that have coverage over $500,000. Personal umbrella coverage is written up to a limit of $5,000,000. The maximum limitation on homeowner's property coverage is $2,000,000, but there are very few homes insured for more than $400,000. ACUITY places no minimum or maximum coverage limitations on its commercial risks. Any commercial risk requiring coverage beyond treaty reinsurance limits utilizes facultative reinsurance, with ACUITY carrying no retention on the facultative layer.

Business is written through approximately 7,527 agents operating out of 642 independent agencies, including 80 agents in 16 of the company's affiliated agencies, all of which are in Wisconsin. The affiliated agencies wrote $19,346,451 in premiums for ACUITY, which represents 6% of the company's Wisconsin premiums. The company uses standard contract forms and commission schedules for its agents. Agents are compensated according to the following commission schedule.

Commercial Lines	**Commission Rates**
Bis-Pak	17.5%
Commercial property	17.5%
General liability	17.5%
Commercial automobile	15%
Garage	15%
Worker's compensation	5% to 10%
Crime and fidelity	17.5%
Commercial inland marine	17.5%
Commercial umbrella	15%

Personal Lines	**Commission Rates**
Road and residence packages	15%
Automobile policies under various plans	10% to 15%
Automobile and homeowner's package	12.5% to 25%
Recreational vehicles	15%
Liability and personal umbrella	15%
Homeowner's	10% to 15%
Assigned risk	10%
Dwelling fire	15%
Boatowners	15%

In addition, any agent who produces at least $300,000 in annual net premiums written is eligible to participate in the profits earned by the company from their production. Contingent commission rates vary from 2% to 40% of the profit derived from the agent's business, depending on volume written. The more premium an agent writes, and the larger the annual growth of that agent's net premiums written, the higher the ratio used for the contingent commission calculation will be.

The following table is a summary of the net insurance premiums written by the company in 2004. The growth of the company is discussed in the "Financial Data" section of this report.

Line of Business	**Direct Premium**	**Reinsurance Assumed**	**Reinsurance Ceded**	**Net Premium**
Fire	$ 21,777,197	$0	$ 3,702,201	$ 18,074,996
Allied lines	14,431,716		973,858	13,457,858
Homeowner's multiple peril	38,080,824		1,743,106	36,337,718
Commercial multiple peril	67,192,744		3,251,098	63,941,646
Inland marine	22,779,858		1,316,219	21,463,639
Worker's compensation	195,438,011		8,739,274	186,698,737
Other liability - occurrence	70,808,200		11,080,730	59,727,470
Products liability - occurrence	8,218,275		186,172	8,032,103
Private passenger auto liability	58,218,034		574	58,217,460
Commercial auto liability	99,817,495		2,725,310	97,092,185
Auto physical damage	92,155,021		1,544,930	90,610,091
Fidelity	925,209			925,209
Surety	10,806		13,119	(2,313)
Burglary and theft	247,639			247,639
Boiler and machinery	2,397,036	0	2,397,036	0
Total All Lines	$692,498,065	$0	$37,673,628	$654,824,437

III. MANAGEMENT AND CONTROL

Board of Directors

The board of directors consists of thirteen members. Four to five directors are elected annually to serve a three-year term. Officers are elected at the board's annual meeting. Members of the company's board of directors may also be members of other boards of directors in the holding company group. The board members currently received $50,000 for serving on the board, paid in either cash or contributed into a “Phantom Stock Plan” account. The “Phantom Stock Plan” will be discussed further in the section of this report titled “Summary of Current Examination Results.” All board members also receive an expense reimbursement based upon actual travel expenses incurred for meetings attended. Board members who also serve on ACUITY Bank, S.S.B.’s boards of directors receive compensation of $10,000 per year. The company’s President, who serves on the boards of directors of the company and its wholly owned subsidiaries, does not receive extra compensation for being a board member other than the annual salary that he receives as being President and CEO, which is reported in the “Officers of the Company” section of this report.

Currently the board of directors consists of the following persons:

Name and Residence	Principal Occupation	Term Expires
Michael R. Duckett Brookfield, WI	President of Duckett Group, Inc.	2006
James A. Feddersen Brookfield, WI	Chairman of the Board and Partner at the Law Firm of Whyte, Hirschboeck, Dudek	2007
Edward C. Fordney Manitowoc, WI	Retired President of Associated Bank	2005
Harold G. Greenhill Whitewater, WI	Retired Chancellor of UW Whitewater	2007
Donald C. Herzfeldt Sheboygan, WI	Corporate Secretary and Retired Senior Vice-President of ACUITY	2006
Paul J. Hoffman Appleton, WI	Managing Member at Hoffman, LLC	2006
Kenneth O. Nelson Lady Lake, FL	Consultant at Partners Healthcare Consulting	2005

Name and Residence	Principal Occupation	Term Expires
Benjamin M. Salzmann Kohler, WI	President and CEO of ACUITY, A Mutual Insurance Company	2006
John F. Schwalbach Kohler, WI	Physician at Aurora Health Care	2006
Carol Skornicka Milwaukee, WI	Sr. Vice-President, Secretary and General Counsel at Midwest Airlines	2007
George K. Steil, Sr. Janesville, WI	Partner at the Law Firm of Brennan, Steil, Basting, SC	2005
Robert T. Willis Elkhart Lake, WI	Physician at Aurora Health Care	2007
Richard G. Zimmermann Sheboygan, WI	President of Zimmermann Printing	2005

Officers of the Company

The officers serving at the time of this examination are as follows:

Name	Office	2004 Compensation*
Benjamin M. Salzmann	President and CEO	$1,940,015
Donald C. Herzfeldt	Corporate Secretary	50,000
Wendy R. Schuler	Vice President of Finance and Corporate Treasurer	193,833
Laura J. Cannestra Conklin	Vice President of Business Consulting	303,950
Edward L. Felchner	Vice President of Marketing and Personal Lines and Assistant Corporate Secretary	326,733
James J. Loiacono	Vice President of Claims	363,928
Sheri L. Murphy	Vice President of Services and Administration and Assistant Corporate Secretary	361,720
Neal J. Ruffalo	Vice President of Enterprise Technology	353,165
John K. Signer	Vice President of Human Resources	309,604
Patrick N. Tures	Vice President of Actuarial and Strategic Information	356,924
Richard A. Waldhart	Vice President of Sales and Communications	418,274
Edgar N. Warren	Vice President of Commercial Insurance	361,677

* The 2004 compensation for the executive officers includes the amount the company declared in contributions to their “Phantom Stock Plan” accounts. See section VII of this report titled “Summary of Examination Results” under the heading “Executive Compensation” for further comments on the company’s reporting of their executive “Phantom Stock Plan” account balances.

Committees of the Board

The company's bylaws allow for the formation of certain committees by the board of directors. The committees at the time of the examination are listed below:

Executive Committee
George K. Steil, Sr., Chair
James A. Feddersen, Secretary
Kenneth O. Nelson
Robert T. Willis

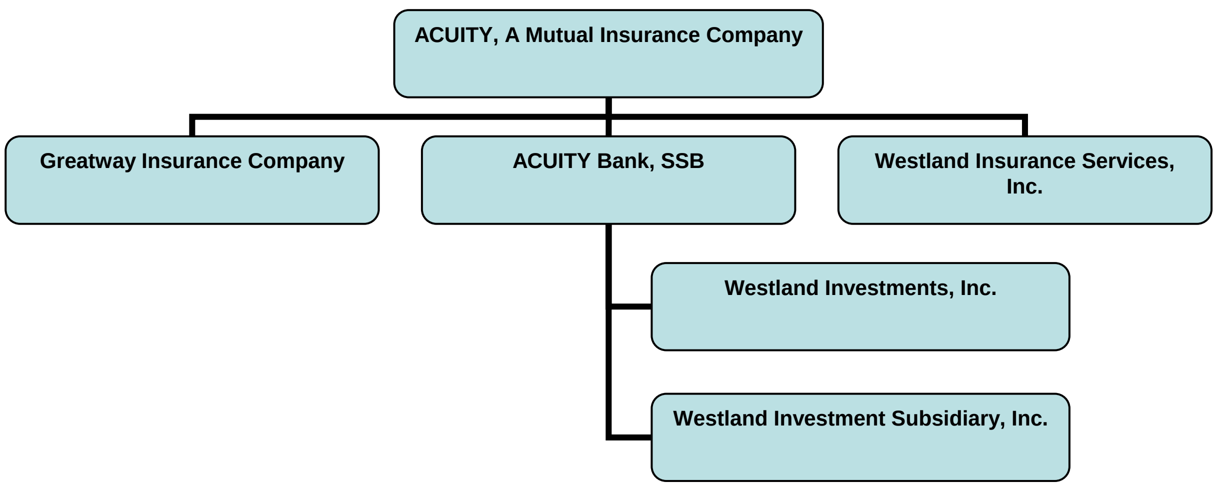
Audit Committee
Harold G. Greenhill, Chair
Michael R. Duckett, Secretary
Donald C. Herzfeldt
Carol Skornicka

Finance Committee
Richard G. Zimmermann, Chair
Edward C. Fordney, Secretary
John F. Schwalbach
Paul J. Hoffman

IV. AFFILIATED COMPANIES

ACUITY, A Mutual Insurance Company, is the ultimate parent of a holding company system and markets a broad range of personal and commercial insurance products. The company is the direct parent to one insurance company, a state-chartered savings bank, and an insurance services company. Through ACUITY Bank, S.S.B, ACUITY exercises control of two indirect wholly owned investment companies. The organization chart below depicts the relationships among the affiliates in the group. A brief description of the subsidiaries follows the organizational chart.

Organizational Chart
As of December 31, 2004



Greatway Insurance Company

Greatway Insurance Company (hereinafter Greatway) was incorporated in Wisconsin on August 3, 1987, and commenced operations on August 29 of the same year. As of June 1, 2000, the company has gone into runoff. Greatway will continue as a licensed insurance carrier, running off its existing business. As of December 31, 2004, the company reported net income of $294,884, assets of $11,758,385, liabilities of $102,818, and policyholders' surplus of $11,655,567. Greatway was examined concurrently with Acuity as of December 31, 2004, and the results of that examination were expressed in a separate report.

Noninsurance Subsidiaries

Westland Insurance Services, Inc.

Westland Insurance Services, Inc., (hereinafter Westland Services) organized in December 1974, is an owner and operator of insurance agencies, with 16 offices in Wisconsin. Effective December 31, 1999, Heritage Financial Corporation was merged into Westland Insurance Services, Inc., the surviving corporation. On January 1, 2001, Heritage Computer Corporation was also merged into Westland Insurance Services, Inc., the surviving corporation. The December 31, 2004, unconsolidated financial statements report net income of $629,050, assets of $2,129,175, liabilities of $859,396, and stockholder's equity of $1,269,779.

ACUITY Bank, S.S.B

ACUITY Bank, S.S.B, (hereinafter ACUITY Bank) is a Wisconsin-chartered savings bank headquartered in Tomah, Wisconsin, with seven offices in west central Wisconsin as well as one office located in ACUITY's corporate headquarters in Sheboygan. Effective March 15, 2001, the bank's name changed from Westland Savings Bank, S.A., to that presently used. ACUITY Bank was incorporated in January 1952. On January 31, 1991, ACUITY acquired all outstanding shares of the bank for $5,492,408 in cash. The consolidated financial statements of ACUITY Bank include the accounts of its wholly owned subsidiaries, Westland Investments, Inc., and Westland Investments Subsidiary, Inc. As of December 31, 2004, the consolidated financial statements reported net income of $550,441, assets of $173,103,146, liabilities of $156,856,298, and stockholder's equity of $16,246,848.

Direct Subsidiaries of ACUITY Bank, S.S.B

Westland Investments, Inc.

Westland Investments, Inc., (hereinafter WII) is a non-active subsidiary of ACUITY Bank. The December 31, 2004, equity in WII was $15,000. This equity was included in the consolidated balance sheet of ACUITY Bank.

Westland Investment Subsidiary, Inc.

Westland Investment Subsidiary, Inc., (hereinafter WIS) is incorporated in the state of Nevada. It is an investment company that receives capital from ACUITY Bank and invests it primarily in short-term bank qualified municipal and government obligations. The income generated from the investments then is, with certain limitations, exempt from any state income tax. The December 31, 2004, equity in WIS was $23,594,591. This equity was included in the consolidated balance sheet of ACUITY Bank.

Agreements with Affiliates

The company is the parent company of a holding company system and engages in the exchange of risks and services with its wholly owned subsidiaries under various written agreements. An affiliated reinsurance agreement with Greatway Insurance Company is described in the reinsurance section of this report. A brief summary of the other four agreements follows, with the arrangement in chronological order.

Service Agreement with Greatway Insurance Company

Effective September 15, 2001, the company entered into a service agreement whereby the company is to provide certain services with respect to the business being run off by Greatway Insurance Company, including, but not limited to, underwriting, claims administration, accounting, general administrative and supervisory administrative services. This agreement automatically renews on the anniversary date. Any party may terminate this agreement through notification at least three months in advance of the annual anniversary date.

Service Agreement with ACUITY Bank, S.S.B., and Westland Insurance Services, Inc.

Effective September 15, 2001, the company entered into an agreement with ACUITY Bank and Westland Insurance Services, Inc., whereby the company is to provide certain services to its affiliates with respect to payroll functions, internal audit and human resource services. Annually this agreement automatically renews on the anniversary date. Any party may terminate this agreement through notification at least six months in advance of the annual anniversary date. In the event of termination, ACUITY will provide reasonable assistance to the affiliate(s) in obtaining replacement services for a period of 30 days following the effective date of termination. It should be noted that this agreement was amended, effective January 1, 2005, to adjust the fees to what is being currently charged the affiliates.

Tax-Sharing Agreement

The company became party to a federal income tax-sharing agreement effective December 18, 2002, between the company and its subsidiaries, whereby the subsidiaries shall pay the company for an amount not to exceed the amount of tax each of them would have paid had a tax return been filed on a separate return basis. Should any subsidiary incur a taxable loss, the company will reimburse in cash to the extent that there is a tax benefit arising from these losses in the consolidated return as deemed in a manner consistent with the allocation of taxes to profitable subsidiaries. Settlement between the parties is to occur within 45 days of the date on which the consolidated federal income tax return is filed. This agreement shall remain in effect for each year the taxable return is filed unless the agreement is amended, replaced, or terminated.

Lease Agreement with ACUITY Bank, S.S.B.

Effective July 1, 2004, the company entered into an agreement with ACUITY Bank, whereby the company is to provide space to ACUITY Bank for a branch office at its home office building in Sheboygan, Wisconsin. The agreement has an initial term of three years and six months and thereafter shall automatically renew annually on the anniversary date. The agreement outlines the rental rates for the initial term and states that the rates are to be negotiated between the parties once the initial term has lapsed. During the term of the lease ACUITY Bank is to maintain its own personal property insurance and liability insurance with a minimum coverage of $1,000,000 per accident. Any party may terminate this agreement by giving 90 days' written notice.

The annual holding company registration statement filed pursuant to s. Ins 40.03, Wis. Adm. Code, and dated May 16, 2005, properly identified the existence of the above agreements with affiliates. Examiners reviewed these agreements as part of their examination. For additional information, see Section VII under the heading "Corporate Records."

V. REINSURANCE

The company's reinsurance portfolio and strategy is described below. A list of the companies that have a significant amount of reinsurance in force at the time of the examination follows. The contracts contained proper insolvency provisions.

Nonaffiliated Ceding Contracts

1.	Type:	First Multiple Line Excess of Loss
	Reinsurer:	Various as brokered through Holborn Corporation. See Exhibit A at the end of this section.
	Scope:	Section A: Property
		Section B: Casualty
	Retention:	Section A: $1,250,000 each loss, each risk
		Section B: $1,250,000 each event
	Coverage:	Section A: $3,750,000 excess of $1,250,000 each loss, each risk, subject to a per occurrence limit of $7,500,000 and an annual aggregate limit of $15,000,000 for terrorism
		Section B: $4,750,000 excess of $1,250,000 each event, subject to annual aggregate limits of $19,000,000 for terrorism, $4,750,000 for worker's compensation and employee liability per insured, and $4,750,000 for product liability per hazard or project
	Premium:	2.78% applied to the subject net earned premium and an annual deposit premium of $19,000,000 subject to a minimum of $15,200,000
	Commissions:	None
	Effective date:	January 1, 2005
	Termination:	January 1, 2006
2.	Type:	Second Multiple Line Excess of Loss
	Reinsurer:	Various as brokered through Holborn Corporation. See Exhibit A at the end of this section.
	Scope:	Section A: Property
		Section B: Casualty
	Retention:	Section A: $5,000,000 each loss, each risk
		Section B: $6,000,000 each event

	Coverage:	Section A: $5,000,000 excess of $5,000,000 each loss, each risk, subject to a per occurrence limit of $10,000,000 and an annual aggregate limit of $15,000,000 for terrorism Section B: $5,000,000 excess of $6,000,000 each event, subject to annual aggregate limits of $15,000,000 for terrorism, $5,000,000 for worker's compensation and employee liability per insured, and $5,000,000 for product liability per hazard or project
	Premium:	0.50% applied to the subject net earned premium and an annual deposit premium of $3,130,000 subject to a minimum of $2,504,000
	Commissions:	None
	Effective date:	January 1, 2005
	Termination:	January 1, 2006
3.	Type:	Third Casualty Excess of Loss
	Reinsurer:	Various as brokered through Holborn Corporation. See Exhibit B at the end of this section.
	Scope:	All business classified by the company as casualty business
	Retention:	$11,000,000 each event
	Coverage:	$9,000,000 excess of $11,000,000 each event or in aggregate as respects to occupational disease and cumulative injury, but subject to annual aggregate limits of $18,000,000 for terrorism and $27,000,000 as respects to all other events. Two full reinstatements being calculated at pro rata of the annual premium under the agreement, being pro rata as to the fraction of the face value of the agreement.
	Premium:	0.253% applied to the subject net earned premium and an annual deposit premium of $1,150,000 subject to a minimum of $920,000
	Commissions:	None
	Effective date:	January 1, 2005
	Termination:	January 1, 2006
4.	Type:	Fourth Casualty Excess of Loss
	Reinsurer:	Various as brokered through Holborn Corporation. See Exhibit B at the end of this section.
	Scope:	All business classified by the company as casualty business
	Retention:	$20,000,000 each event

	Coverage:	$20,000,000 excess of $20,000,000 each event or in aggregate as respects to occupational disease and cumulative injury, but subject to an annual aggregate limit of $40,000,000. One full reinstatement being calculated at pro rata of the annual premium under the agreement, being pro rata as to the fraction of the face value of the agreement reinstated.
	Premium:	0.209% applied to the subject net earned premium and an annual deposit premium of $950,000 subject to a minimum of $760,000
	Commissions:	None
	Effective date:	January 1, 2005
	Termination:	January 1, 2006
5.	Type:	Fifth Casualty Excess of Loss
	Reinsurer:	Various as brokered through Holborn Corporation. See Exhibit B at the end of this section.
	Scope:	All business classified by the company as casualty business
	Retention:	$40,000,000 each event
	Coverage:	$32,000,000 excess of $40,000,000 each event or in aggregate as respects to occupational disease and cumulative injury, but subject to annual aggregate limits of $32,000,000 for terrorism and $64,000,000 as respects to all other events. One full reinstatement being calculated at pro rata of the annual premium under the agreement, being pro rata as to the fraction of the face value of the agreement reinstated.
	Premium:	0.211% applied to the subject net earned premium and an annual deposit premium of $960,000 subject to a minimum of $768,000
	Commissions:	None
	Effective date:	January 1, 2005
	Termination:	January 1, 2006
6.	Type:	Property Catastrophe Excess of Loss
	Reinsurer:	Various as brokered through Holborn Corporation. See Exhibit C at the end of this section.
	Scope:	Property risks classified by the company as property

a. First Layer

Retention:	$3,000,000 ultimate net loss each loss occurrence
Coverage:	$6,000,000 excess of $3,000,000 each loss occurrence subject to an annual aggregate of $12,000,000
Premium:	1.226% applied to the subject net earned premium and an annual deposit premium of $2,100,000 subject to a minimum of $1,680,000. One full automatic reinstatement being calculated at pro rata of the annual premium under the agreement, being pro rata as to the fraction of the face value of this layer of the agreement reinstated.

b. Second Layer

Retention:	$9,000,000 ultimate net loss each loss occurrence
Coverage:	$9,000,000 excess of $9,000,000 each loss occurrence subject to an annual aggregate of $18,000,000
Premium:	0.578% applied to the subject net earned premium and an annual deposit premium of $990,000 subject to a minimum of $792,000. One full automatic reinstatement being calculated at pro rata of the annual premium under the agreement, being pro rata as to the fraction of the face value of this layer of the agreement reinstated.

c. Third Layer

Retention:	$18,000,000 ultimate net loss each loss occurrence
Coverage:	$12,000,000 excess of $18,000,000 each loss occurrence subject to an annual aggregate of $24,000,000
Premium:	0.350% applied to the subject net earned premium and an annual deposit premium of $600,000 subject to a minimum of $480,000. One full automatic reinstatement being calculated at pro rata of the annual premium under the agreement, being pro rata as to the fraction of the face value of this layer of the agreement reinstated.

d. Fourth Layer

Retention:	$30,000,000 ultimate net loss each loss occurrence
Coverage:	$70,000,000 excess of $30,000,000 each loss occurrence subject to an annual aggregate of $140,000,000
Premium:	0.817% applied to the subject net earned premium and an annual deposit premium of $1,400,000 subject to a minimum of $1,120,000. One full automatic reinstatement being calculated at pro rata of the annual premium under the agreement, being pro rata as to the fraction of the face value of this layer of the agreement reinstated.

	Commissions:	None
	Effective date:	January 1, 2005
	Termination:	January 1, 2006

Affiliated Assuming Contracts

1.	Type:	100% Quota Share Reinsurance
	Reinsured:	Greatway Insurance Company
	Scope:	All business written and assumed by the reinsured
	Retention:	None
	Coverage:	100% of all loss and loss adjustment expenses incurred by the reinsured
	Premium:	100% of all premiums written by the reinsured
	Commissions:	The ceding commission is equal to the underwriting expenses incurred by the reinsured
	Effective date:	January 1, 2004
	Termination:	Any anniversary date upon 12 months' prior written notice by either party

Exhibit A
Multiple Line Excess of Loss
Participation Schedule

Reinsurer	Participation 1st Layer	2nd Layer
Axis Reinsurance Company	30.0%	45.0%
Hannover Ruckversicherungs – AG	30.0	10.0
Partner Reinsurance Company.	40.0	45.0
Total	100.0%	100.0%

Exhibit B
Casualty Excess of Loss
Participation Schedule

Reinsurer	3rd Layer	Participation 4th Layer	5th Layer
Axis Reinsurance Company	30.0%	35.0%	0.0%
Endurance Specialty Insurance LTD.	0.0	20.0	30.0
Folksamerica Reinsurance Company	33.0	20.0	32.5
GE Reinsurance Corporation	17.0	0.0	0.0
Hannover Ruckversicherungs – AG	15.0	15.0	10.0
New Jersey Re-insurance Company	5.0	5.0	5.0
Transatlantic Reinsurance Company	0.0	5.0	15.0
XL Reinsurance America Group	0.0	0.0	7.5
Total	100.0%	100.0%	100.0%

Exhibit C
Property Catastrophe Excess of Loss
Participation Schedule

Reinsurer	1st Layer	Participation 2nd Layer	3rd Layer	4th Layer
ACE Tempest Reinsurance Ltd.	0.00%	0.00%	0.00%	17.50%
American Agricultural Insurance Company	0.00	0.00	3.00	1.25
American Re-Insurance Company	0.00	24.00	10.00	0.00
Arch Reinsurance Company	20.00	5.00	5.00	0.00
Ascot Insurance Services Ltd.	15.00	0.00	5.00	2.25
Employers Mutual Casualty Company	2.00	1.00	1.00	0.00
Everest Reinsurance Company	20.00	10.00	10.00	0.00
Hannover Ruckversicherungs – AG	0.00	3.50	6.00	6.00
QBE Reinsurance Corporation	0.00	0.00	7.50	3.00
R+V Versicherungs AG	10.00	15.00	0.00	0.00
Swiss Re Underwriters Agency Ltd.	0.00	0.00	0.00	20.00
London: Various Lloyd's Underwriters	31.50	39.33	50.30	47.86
ACE Tempest Re Europe	1.50	2.17	2.20	2.14
Total	100.00%	100.00%	100.00%	100.00%

VI. FINANCIAL DATA

The following financial statements reflect the financial condition of the company as reported to the Commissioner of Insurance in the December 31, 2004, annual statement. Also included in this section are schedules that reflect the growth of the company, NAIC Insurance Regulatory Information System (IRIS) ratio results for the period under examination, and the compulsory and security surplus calculation. Adjustments made as a result of the examination are noted at the end of this section in the area captioned "Reconciliation of Surplus per Examination."

ACUITY, A Mutual Insurance Company
Assets
As of December 31, 2004

	Assets	Nonadmitted Assets	Net Admitted Assets
Bonds	$ 703,376,852	$ 0	$ 703,376,852
Stocks:			
Preferred stocks	2,397,900	0	2,397,900
Common stocks	166,614,331	0	166,614,331
Real estate:			
Occupied by the company	53,853,812	0	53,853,812
Properties held for sale	599,000	0	599,000
Cash	35,020,905	0	35,020,905
Short-term investments	6,149,659	0	6,149,659
Other invested assets	79,264,450	0	79,264,450
Investment income due and accrued	9,147,774	0	9,147,774
Premiums and considerations:			
Uncollected premiums and agents' balances in course of collection	39,317,827	2,501,821	36,816,006
Deferred premiums, agents' balances, and installments booked but deferred and not yet due	170,320,545	824,731	169,495,814
Reinsurance:			
Amounts recoverable from reinsurers	1,993,078	0	1,993,078
Current federal and foreign income tax recoverable and interest thereon	5,205,591	0	5,205,591
Net deferred tax asset	9,082,332	0	9,082,332
Guaranty funds receivable or on deposit	124,101	0	124,101
Electronic data processing equipment and software	7,450,218	5,976,065	1,474,153
Furniture and equipment, including health care delivery assets	8,590,934	8,590,934	0
Receivable from parent, subsidiaries, and affiliates	148,937	0	148,937
Write-ins for other than invested assets:			
Prepaid expenses	1,619,884	1,619,884	0
Security deposit	406,200	406,200	0
Total Assets	$1,300,684,330	$19,919,635	$1,280,764,695

ACUITY, A Mutual Insurance Company
Liabilities, Surplus, and Other Funds
As of December 31, 2004

Losses		$ 407,774,161
Reinsurance payable on paid loss and loss adjustment expenses		2,754
Loss adjustment expenses		107,437,133
Commissions payable, contingent commissions, and other similar charges		18,707,154
Other expenses (excluding taxes, licenses, and fees)		17,878,338
Taxes, licenses, and fees (excluding federal and foreign income taxes)		5,539,692
Unearned premiums		296,743,233
Advance premium		2,831,683
Dividends declared and unpaid:		
Policyholders		5,358,305
Ceded reinsurance premiums payable (net of ceding commissions)		1,267,225
Amounts withheld or retained by company for account of others		1,646,650
Provision for reinsurance		57,925
Payable for securities		1,000,000
Write-ins for liabilities:		
Severance Liability		235,953
Total Liabilities		866,480,206
Write-ins for special surplus funds:		
Undeclared dividends	$ 12,737,000	
Guaranty fund	1,500,000	
Unassigned funds (surplus)	400,047,489	
Surplus as Regards Policyholders		414,284,489
Total Liabilities and Surplus		$1,280,764,695

ACUITY, A Mutual Insurance Company
Summary of Operations
For the Year 2004

Underwriting Income		
Premiums earned		$620,187,356
Deductions:		
Losses incurred	$305,363,011	
Loss expenses incurred	70,439,736	
Other underwriting expenses incurred	177,436,138	
Total underwriting deductions		553,238,885
Net underwriting gain or (loss)		66,948,471
Investment Income		
Net investment income earned	43,402,812	
Net realized capital gains or (losses)	1,643,749	
Net investment gain or (loss)		45,046,561
Other Income		
Net gain or (loss) from agents' or premium balances charged off	(703,864)	
Finance and service charges not included in premiums	2,428,872	
Write-ins for miscellaneous income:		
Home office commissions and other	(58,561)	
Total other income		1,666,447
Net income (loss) before dividends to policyholders and before federal and foreign income taxes		113,661,478
Dividends to policyholders		8,770,113
Net income (loss) after dividends to policyholders but before federal and foreign income taxes		104,891,365
Federal and foreign income taxes incurred		37,073,172
Net Income		$ 67,818,193

ACUITY, A Mutual Insurance Company
Cash Flow
For the Year 2004

Premiums collected net of reinsurance			$628,741,028
Net investment income			47,989,213
Miscellaneous income			1,666,449
Total			678,396,690
Benefit- and loss-related payments		$212,009,896	
Commissions, expenses paid, and aggregate write-ins for deductions		218,701,162	
Dividends paid to policyholders		8,766,808	
Federal and foreign income taxes paid (recovered)		38,737,768	
Total deductions			478,215,634
Net cash from operations			200,181,055
Proceeds from investments sold, matured, or repaid:			
Bonds	$231,069,381		
Stocks	3,014,069		
Real estate	556		
Other invested assets	9,540,319		
Net gains (losses) on cash and short-term investments	(112,825)		
Miscellaneous proceeds	423,806		
Total investment proceeds		243,935,306	
Cost of investments acquired (long-term only):			
Bonds	388,008,338		
Stocks	10,027,361		
Real estate	25,468,390		
Other invested assets	21,053,603		
Miscellaneous applications	(814,168)		
Total investments acquired		443,743,524	
Net cash from investments			(199,808,218)
Cash from financing and miscellaneous sources:			
Other cash provided (applied)		(5,978,471)	
Net cash from financing and miscellaneous sources			(5,978,471)
Reconciliation			
Net change in cash and short-term investments			(5,605,634)
Cash and short-term investments, December 31, 2003			46,776,198
Cash and short-term investments, December 31, 2004			$ 41,170,564

ACUITY, A Mutual Insurance Company
Compulsory and Security Surplus Calculation
December 31, 2004

Assets		$1,280,764,695
Less security surplus of insurance subsidiaries		4,602,969
Less liabilities		866,480,206
Adjusted surplus		409,681,520
Annual premium:		
Lines other than accident and health	$654,824,436	
Factor	20%	
Compulsory surplus (subject to a minimum of $2 million)		129,210,864
Compulsory surplus excess (or deficit)		$ 280,470,656
Adjusted surplus (from above)		$ 409,681,520
Security surplus: (140% of compulsory surplus, factor reduced 1% for each $33 million in premium written in excess of $10 million, with a minimum factor of 110%)		156,345,145
Security surplus excess (or deficit)		$ 253,336,375

ACUITY, A Mutual Insurance Company
Reconciliation and Analysis of Surplus
For the Five-Year Period Ending December 31, 2004

The following schedule is a reconciliation of total surplus during the period under examination as reported by the company in its filed annual statements:

	2004	2003	2002	2001	2000
Surplus, beginning of year	$328,539,784	$243,933,490	$216,833,670	$203,411,826	$191,000,211
Net income	67,818,193	43,431,461	34,282,500	7,023,710	11,903,413
Net unrealized capital gains or (losses)	15,569,513	35,999,472	(10,070,068)	(7,077,248)	2,106,784
Change in net deferred income tax	8,132,178	7,122,813	5,543,828	9,057,756	0
Change in nonadmitted assets	(6,093,254)	(2,009,575)	(2,790,975)	(4,738,777)	(593,874)
Change in provision for reinsurance	318,075	62,123	134,535	(570,658)	35,873
Change in excess of statutory reserves over statement reserves	0	0	0	0	(1,040,581)
Cumulative effect of changes in accounting principles	0	0	0	9,727,061	0
Surplus, end of year	$414,284,489	$328,539,784	$243,933,490	$216,833,670	$203,411,826

ACUITY, A Mutual Insurance Company
Insurance Regulatory Information System
For the Five-Year Period Ending December 31, 2004

The company's NAIC Insurance Regulatory Information System (IRIS) results for the period under examination are summarized below. Unusual IRIS results are denoted with asterisks and discussed below the table.

	Ratio	2004	2003	2002	2001	2000
#1	Gross Premium to Surplus	167%	188%	219%	193%	168%
#2	Net Premium to Surplus	158	179	209	185	163
#3	Change in Net Writings	12	15	27	21	21
#4	Surplus Aid to Surplus	0	0	0	0	0
#5	Two-Year Overall Operating Ratio	84	86	90	94	93
#6	Investment Yield	4.7	3.6*	4.1*	4.2*	5.3
#7	Change in Surplus	24	32	16	8	8
#8	Liabilities to Liquid Assets	78	79	80	77	73
#9	Agents' Balances to Surplus	9	11	12	13	9
#10	One-Year Reserve Development to Surplus	(6)	(1)	(8)	(6)	(12)
#11	Two-Year Reserve Development to Surplus	2	(4)	(10)	(16)	(21)
#12	Estimated Current Reserve Deficiency to Surplus	(20)	(8)	2	(1)	(3)

In 2001, 2002, and 2003, the investment yield ratios were exceptional. This ratio measures the amount of the company's net investment income as a percentage of the average amount of cash and invested assets. Over this three-year period, the company's net investment gain fluctuated greatly from year to year and only increased by 14% to $32.1 million over that period in spite of an increase in invested assets of 61.7%. Those results combined with the reinvestment of proceeds from the disposal of invested assets into bonds with low interest rates, which includes a large number of tax exempt bond holdings with modest returns, caused investment yield to decrease over that period of time and were the primary factors attributable towards the exceptional results.

Growth of ACUITY, A Mutual Insurance Company

Year	Admitted Assets	Liabilities	Surplus As Regards Policyholders	Net Income
2004	$1,280,764,695	$866,480,206	$414,284,489	$67,818,193
2003	1,044,170,256	715,630,472	328,539,784	43,431,461
2002	832,169,406	588,235,911	243,933,490	34,282,500
2001	715,134,325	498,300,655	216,833,670	7,023,710
2000	621,186,041	417,774,217	203,411,826	11,903,413
1999	555,020,086	364,019,878	191,000,211	43,479,164

Year	Gross Premium Written	Net Premium Written	Premium Earned	Loss And LAE Ratio	Expense Ratio	Combined Ratio
2004	$692,498,065	$654,824,437	$620,187,356	60.6%	26.8%	87.4%
2003	616,365,340	586,879,791	549,387,663	63.0	27.2	90.2
2002	534,114,169	509,683,003	461,715,183	61.1	26.9	88.0
2001	418,228,770	402,090,956	369,895,108	71.7	26.2	97.9
2000	341,193,408	331,814,157	304,399,230	69.1	28.3	97.4
1999	280,917,429	274,318,485	258,756,370	67.0	29.7	96.7

The company has experienced surplus growth over the past five years of 117%, while at the same time maintaining a gross premiums written to surplus ratio of under 2 to 1 except for 2002. Premium growth has been steady over the five-year period under examination and is attributable to the company's successful marketing strategy through their network of independent agencies. The company has reduced its expense ratio and its loss ratio over the five-year period, thus contributing to a positive net income for each year under examination. 2001 was the only year the company experienced net income lower than $10 million, which was mainly attributable to large windstorms that year and resulted in a net loss and LAE ratio of 71.7%.

Reconciliation of Surplus per Examination

No adjustments were made to surplus as a result of the examination. The amount of surplus reported by the company as of December 31, 2004, is accepted.

VII. SUMMARY OF EXAMINATION RESULTS

Compliance with Prior Examination Report Recommendations

There were ten specific comments and recommendations in the previous examination report. Comments and recommendations contained in the last examination report and actions taken by the company are as follows:

1. Management and Control—It is recommended that the company maintain with this office current biographical information on its officers and directors in compliance with s. Ins 6.52, Wis. Adm. Code.

   Action—Noncompliance, see comments in the summary of current examination results.

2. Management and Control—It is recommended that the company implement a procedure to ensure proper disclosures in the "General Interrogatories" section of future annual statements.

   Action—Compliance

3. Common Stock—It is again recommended that the company reregister its shares in the Investment Company of America to reflect ownership by Heritage Mutual Insurance Company, pursuant to s. 610.23, Wis. Stat.

   Action—Compliance

4. Bonds—It is recommended that the company either seek settlement for these obligations or nonadmit due to the delay in settlement.

   Action—Compliance

5. Corporate Records—It is recommended that the company develop and execute the agreements necessary, which will clearly and accurately disclose the nature and details of all the various transactions amongst affiliates, for allocating expenses and for settling balances, pursuant to s. 611.61, Wis. Stat.

   Action—Compliance

6. Corporate Records—It is recommended that the company submit all current agreements, or any amendment thereof, within 90 days from the adoption of this report and any future proposed agreements, at least 30 days in advance in compliance with s. 617.21, Wis. Stat., and s. Ins 40.04 (2), Wis. Adm. Code.

   Action—Partial compliance, see comments in the summary of current examination results.

7. Compulsory Surplus—It is recommended that the company properly exclude the value in excess of the "basket" clause of its investment in Belcrest on future filings of compulsory and security surplus calculations, pursuant to s. Ins 51.80, Wis. Adm. Code.

   Action—Compliance

8. Electronic Data Processing—It is recommended that the company increase the required length of its password for network and mainframe access.

   Action—Compliance

9. Electronic Data Processing—It is recommended that the company establish a formal control to ensure that no changes are made to programs after programming is complete and the program is submitted to the testing phase.

   Action—Compliance

10. Actuarial Documentation—It is recommended that the company sufficiently document the reasons for its assumptions regarding the 40/60 split of IBNR between case reserves and unreported losses within the actuarial report.

    Action—Compliance

Summary of Current Examination Results

Executive Compensation

The liability balances reported on the company's balance sheet relating to executive compensation were accurate and complete; however, the executive compensation balance reported on the Annual Statement supplemental filing to the commissioner didn't contain the company's full contribution towards the executives' Phantom Stock Plan (hereinafter PSP). This plan allows for executives and directors to be awarded units that act as stock shares. Units that are awarded to executives are only one-third vested each year over a three-year period, except for the President whose shares fully vest when awarded. Directors receive $50,000 annually as compensation and are allowed to receive half of it as cash and receive the other half as a contribution towards the PSP, or they have the option to defer the entire $50,000 towards the PSP. In either case, the directors' shares fully vest when awarded. Therefore, that amount reported as a liability on the Annual Statement is correctly reported since the amount reported is the vested amount plus amounts related to future periods over which the participants perform the services for which the awards were granted, which is in compliance with the SSAPs that cover accounting for deferred compensation.

However, the amount reported on the Report of Executive Compensation is incorrect. According to s. 611.63 (4), Wis. Stat., companies are to report to the commissioner, on an annual basis, all direct and indirect remuneration for services, including retirement and other deferred compensation benefits and stock options, paid or accrued each year for the benefit of each director and each officer and employee whose remuneration exceeds the amount established by the commissioner. In this case, the full amount awarded (vested and unvested) should be reported as part of the "all other compensation" balance. Any adjustments made from year to year due to increase in value of awarded units or any additional units awarded by the Board of Directors should also be reported in the Report on Executive Compensation. The 2004 Report of Executive Compensation to the commissioner did not include the unvested portion of phantom stock units awarded to company executives equaling $502,660 in aggregate. This amount is reflected in the executives' compensation reported in section III of this report titled "Management and Control" under the heading "Officers of the Company." It is recommended that the company report all remuneration to executives, which includes deferred compensation and other retirement compensation fully-funded or awarded by the company, for those executives whose remuneration meets the requirements to be reported to the Commissioner of Insurance in accordance with s. 611.63, Wis. Stat.

Management and Control

The prior examination report findings for ACUITY noted that the company did not file with the commissioner all required biographical affidavits. Review of the company's board of directors meeting minutes disclosed that two directors (Mr. Michael Duckett and Mr. Paul Hoffman) were appointed to the board during ACUITY's December 4, 2004, board of directors meeting. However, the biographical affidavit for Mr. Duckett was not sent by the company until February 4, 2005, and Mr. Hoffman's biographical affidavit was not sent until March 8, 2005. According to s. Ins 6.52 (5), Wis. Adm. Code, a report shall be provided by each domestic insurer to which this rule applies with respect to the appointment or election of any new director, trustee or officer elected or appointed within 15 days after such appointment or election. It is again recommended that the company maintain with this office current biographical information on its officers and directors in compliance with s. Ins 6.52, Wis. Adm. Code.

Corporate Records

The prior examination noted that the company failed to file affiliated agreements, or any amendments thereof with the commissioner in accordance with s. 617.21, Wis. Stat., and s. Ins 40.04 (2), Wis. Adm. Code. All affiliated agreements were reviewed and compared to both the most current holding company filing with the commissioner as well as documents noting non-disapproval of the affiliated agreements filed with the commissioner. It was discovered that all affiliated agreements have been filed with the commissioner for non-disapproval except for the Tax-Sharing Agreement that was amended December 18, 2002. The company could not provide evidence of filing this agreement with the commissioner. Therefore, the company is not entirely in compliance with the prior examination recommendation in regards to filing their affiliated agreements. It is again recommended that the company submit all current agreements, or any amendment thereof, within 90 days from the adoption of this report and any future proposed agreements at least 30 days in advance in compliance with s. 617.21, Wis. Stat., and s. Ins 40.04 (2), Wis. Adm. Code.

VIII. CONCLUSION

Policyholders' surplus has increased from $191,000,211 as of year-end 1999 to $414,284,489 as of year-end 2004. This represents an increase of 117% during the period under examination, which is partially attributable to steady premium growth and reduction of the company's expense ratio and loss ratio during this time. Operating earnings have been profitable over the period under examination due to favorable weather conditions in the Midwest, continually good underwriting performances, and steady investment income.

The examination of ACUITY, A Mutual Insurance Company, resulted in three recommendations, two of which were repeat recommendations, no adjustment to surplus and no reclassifications. The recommendations pertain to statutory reporting requirements in regards to the filing of its directors' biographical affidavits, filing of affiliated agreements, and proper annual statement filing requirements relating to executive compensation.

IX. SUMMARY OF COMMENTS AND RECOMMENDATIONS

1. Page 34 - Executive Compensation—It is recommended that the company report all remuneration to executives, which includes deferred compensation and other retirement compensation fully-funded or awarded by the company, for those executives whose remuneration meets the requirements to be reported to the Commissioner of Insurance in accordance with s. 611.63, Wis. Stat.

2. Page 34 - Management and Control—It is again recommended that the company maintain with this office current biographical information on its officers and directors in compliance with s. Ins 6.52, Wis. Adm. Code.

3. Page 34 - Corporate Records—It is again recommended that the company submit all current agreements, or any amendment thereof, within 90 days from the adoption of this report and any future proposed agreements at least 30 days in advance in compliance with s. 617.21, Wis. Stat., and s. Ins 40.04 (2), Wis. Adm. Code.

X. ACKNOWLEDGMENT

The courtesy and cooperation extended during the course of the examination by the officers and employees of the company are acknowledged.

In addition to the undersigned, the following representatives of the Office of the Commissioner of Insurance, State of Wisconsin, participated in the examination:

Name	Title
Jerry C. DeArmond	Insurance Financial Examiner Advanced Loss Reserve Specialist
Stephen L. Elmer	Insurance Financial Examiner
Randy F. Milquet	Insurance Financial Examiner Advanced Data Processing Audit Specialist and Reinsurance Specialist
Angelita M. Romaker	Insurance Financial Examiner
Frederick H. Thornton	Insurance Financial Examiner Advanced Exam Planning and Quality Control Specialist
Carina V. Toselli	Insurance Financial Examiner

Respectfully submitted,

John Litweiler
Examiner-in-Charge